Society-Oriented Social Responsibility Compass to Sustainable Growth of Small and Medium Enterprises in Developing Countries

By Dr. Bobo Chazireni & Dr. Kudakwashe Zvitambo

Commence Midlands State University

Abstract- Although Society-oriented Social Responsibility has customarily been linked with large companies, Small and Medium Enterprises businesses proved to be a considerable sector in developing countries’ economy. Globally, Small and Medium Enterprises constitute as productive drivers of inclusive economic growth and development of many countries. In South Africa, Small and Medium Enterprises make up 91 percent of formalised businesses, providing employment to about 60 percent of the labour force and accounts for total economic output of roughly 34% percent Gross Domestic Product (GDP) of the country. Given the critical socio-economic role played by Small and Medium Enterprises, it is vital that they grow and succeed. While a number of studies have acknowledged access to finance as a key success factor, similar studies carried out around the world also highlighted the role of social responsibility on the success of Small and Medium Enterprises.

Keywords: society-oriented social responsibility, small and medium enterprises, and sustainable growth.

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Society-Oriented Social Responsibility Compass to Sustainable Growth of Small and Medium Enterprises in Developing Countries

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Abstract - Although Society-oriented Social Responsibility has customarily been linked with large companies, Small and Medium Enterprises businesses proved to be a considerable sector in developing countries' economy. Globally, Small and Medium Enterprises constitute as productive drivers of inclusive economic growth and development of many countries. In South Africa, Small and Medium Enterprises make up 91 percent of formalised businesses, providing employment to about 60 percent of the labour force and accounts for total economic output of roughly 34 percent Gross Domestic Product (GDP) of the country. Given the critical socio-economic role played by Small and Medium Enterprises, it is vital that they grow and succeed. While a number of studies have acknowledged access to finance as a key success factor, similar studies carried out around the world also highlighted the role of social responsibility on the success of Small and Medium Enterprises. Literature on society-oriented social responsibility as a compass strategy to sustainable growth of Small and Medium Enterprises is scarce. Small and Medium Enterprises do not operate in a vacuum but in a community which provides the operating license. Society-Oriented Social Responsibility activities have a significant positive influence on the competitive advantage of those Small and Medium Enterprises which practise it. Therefore, businesses which voluntarily participate in local community activities, such as providing the community with donations, assisting them with projects and sharing some of its profit with the community, is more likely to become competitive in the long run. The study explores Society-Oriented Social Responsibility to sustainable growth of SME businesses in developing countries using South Africa as a case study. The study was guided by an interpretative paradigm which advocates qualitative approach. Data was obtained through face to face interviews. The data revealed that most Small and Medium Enterprises do not understand the significance of giving back to the community. The paper recommends education and awareness programmes which target the Small and Medium Enterprises. The must be a model which can be adopted by Small and Medium Enterprises who practice Society-Oriented Social Responsibility.

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I. Introduction

Scholars concur that Small and Medium Enterprises contribute massively to Gross Domestic Product of most developing countries, especially in Africa. Small and Medium Enterprises position themselves as secund drivers of economic growth and sustainable development in African countries.

The existence of Small and Medium Enterprises in any economy is of paramount importance despite them experiencing a high failure rate. Studies done reveals growing recognition of the critical role Small and Medium Enterprises plays in economic development. Empirical evidence points to their efficiency and prolific job creation, the seeds of big businesses and the fuel of national economic engines with much hype on their ability to eradicate poverty and inequality. Nevertheless, for a multiplicity of reasons, Small and Medium Enterprises lag behind practises of modern brand growth strategies such as Society-Oriented Social Responsibility.

Despite their vital contribution to economic growth, Small and Medium Enterprises in developing countries still face numerous challenges that inhibit growth. The frustrating low growth rate has been predominantly caused by Small and Medium Enterprises failing to embrace growth strategies such as Society-Oriented Social Responsibility. SME lament cost linked to adoption, implementation and practice of SSR. However, apart from SME funding and access to finance (which is a major reason for high failure rate), the Global Entrepreneurship Monitor (GEM) Reports of 2001-2010 explained that South African SMEs suffer from poor marketing, expertise which proceed from inadequate training and education. Furthermore, SME business owners’ ethics play a prohibitive role in the adoption of SSR as a strategy to build brand loyalty and other benefits realised through the successful practice of SSR.

To date, very little research has been conducted in South Africa on the perceived role of the owner’s ethical values which directly or indirectly impact on the business’ adoption, practise or implementation of SSR. Research on SSR in SMEs is limited, especially in developing countries. While playing such a significant role in the economy, to address this, the study will...
investigate SSR as a compass strategy to the sustainable growth of SMEs businesses in South Africa.

South Africa experiences abundant socio-economic challenges, and the challenges are, however to a large extent linked to high levels of unemployment. (Hall, 2009) pointed out that the official unemployment rate is approximately 29 per cent; however, if one were to include those between the ages of 16 to 60 and discouraged work seekers, then the unemployment rate is approximately 36 per cent. Olawale and (Garwe, 2010) revealed that growth failure rate of SMEs in South Africa is around 75 per cent, one of the highest in the world which conveniently contribute to vast unemployment in the country.

Nevertheless, according to the Stakeholder Theory, by involving all SSR stakeholders in the business activities, SMEs improve their relationship with customers, work in an accommodative business environment, engage motivated workforce, willing community and increased brand loyalty which results in potential growth of the business (Freeman, 2010); (Urban and Naidoo, 2012). Therefore, the motive and drive of the study were to establish clearly whether SME business owner’s ethical values have a role to play in SME businesses in South Africa.

Objectives

Results were attained through assessing SMEs perception of SSR towards sustainable growth of the business; assessing impact of SSR on the SME business; assessing SSR as a sustainable growth strategy for SME businesses.

II. Literature Review

a) SSR and sustainable growth of SME businesses in South Africa

The future generation refers to a business that considers the effects of its growth on its employees, community and the environment. It has been established through research that there is a direct trade-off or interchange between rapid growth and growth in the future. There are amassable chances that rapid growth today may exhaust resources and create environmental, employee and societal problems for future generations, including the depletion of oil and fish stocks and global warming (Ball, 2014).

Todd, Javalgi and Grossman (2014) contended that regarding a business, sustainable growth is the realistically attainable growth that a company could maintain without running into problems. Therefore, a business that grows too quickly may find it challenging to fund growth. On the other hand, a business that grows too slowly or not at all may stagnate. Finding the optimum growth rate is the goal. Todd et al. (2014) posit that a sustainable growth rate (SGR) is the maximum growth rate that a company can sustain without having to increase financial leverage. In essence, to find a company’s sustainable growth rate is to answer the question: how much can this company grow before it must borrow money? (Snyman et al. 2014). Ndubisi and Agarwal (2014), in support of Todd, Javalgi and Grossman (2014), suggest that businesses must consider sustainability a priority, adding that it is one of the only ways of ensuring South Africa’s economic growth. The business of business is not just business.

The SMEs’ relatively small size can work to the advantage of sustainable growth. The advantage is that SMEs tend to be closer to their communities and these strong ties help them stay in tune with local needs and demands. Their autonomy permits flexible decision-making to implement SSR as they see fit. To substantiate the idea of SMEs’ sustainable growth as a springboard to consistent employment levels in an economy, poverty alleviation, crime reduction, increased brand loyalty through SSR (Bolanle 2012).

b) SSR factors that influence the sustainable growth of SMEs

In its nature, SSR can be equated with the notions of giving back to the community and offering quality products and services. Common SSR activities include sponsorship programs, waste recycling and participation in community activities (Adebiyi and Adeola 2014; Shitta-Bey 2014). Okafor and Oshodin (2012) agreed that similar to their larger counterparts, SMEs cannot operate their businesses without community support. Okafor and Oshodin (2012) argue that SMEs act responsibly because their legitimacy with immediate stakeholders is at stake.

Conclusively, agreeing with the work of Adebiyi and Adeola (2014) and Shitta-Bey (2014), SMEs could implement SSR policies successfully, which would positively affect their sustainable growth and long-term goals. One important aspect to note is that SMEs have stakeholder relationships that are similar to and stronger than those of large companies because of their proximity to communities. Most SME businesses are founded as home-based (Spaza shops in Soweto) with strong community ties and loyal customers. Also noting Ibidunnis’s (2013) contribution, the above statements imply that SMEs have stakeholders in the normal range with large companies and the purpose of stakeholder management is similar with their primary concern being to reduce their risk by managing stakeholders. Akeem (2014) posits that SSR is all about making socially sensitive investments; developing relationships with the community.

c) Practise of SSR by SME businesses in South Africa

According to Homburg, Stierl and Boremann (2013), SSR activities refer to those activities aimed at community, sports, health and well-being, education, support to low-income groups and community participation. These activities are viewed as support for social and cultural community activities, as well as
community development and other related issues. The main popular SSR activity is support for sporting activities and is the preferred activity amongst SMEs in nearly all the countries, both in Europe and Africa. Similarly, SMEs appear to be most active in supporting sporting, health and cultural activities in Latin America.

Calabrese (2013) argued that SSR activities as necessary to SMEs, namely financial and in-kind (material) donations; volunteerism; education of the public; support of various kinds for the local quality of life (e.g., sports, culture, etc.); and collaboration with local schools, authorities and various organisations. However, to sum up, the above, Manasakis, Mitrokostas and Petrakis (2013) held the view that SMEs depend on the health, stability and prosperity of the communities in which they operate. The reputation of a business at its location, its image as an employer and producer, but also as an actor on the local scene, certainly influences its competitiveness.

In the researchers’ view, SMEs are not in isolation from the community they operate in. Therefore Lizarzaburu (2014) strongly suggested a paradigm shift on the way SMEs view the society. His suggestion was mainly targeted at a two-way relationship where the community and the business view each other as partners. Cruz (2013) agreed and explained that SSR activities have a significant favourable influence on the increased competitiveness of SME businesses. According to Cruz (2013), this means that a business which voluntarily participates in local community activities, such as providing the community with donations, assisting them with projects and sharing some of its profit with the community, is more likely to become competitive in the long run. Therefore, SMEs should take an interest in the overall well-being of the community by engaging in local community activities such as giving the community donations of necessary funds and goods, awarding grants to children for outstanding scholastic performance, and assisting the community with general development projects (e.g., health care and sports) in order to build good community relations and thereby enhance their competitiveness (Rahim and Wisuttsisak 2013).

III. Methodology

It is against the gaps in the literature caused by different research methods that this study is anchored by Stakeholder theory, which directly feeds into the Research Paradigms, i.e. Interpretivist (aligned to a qualitative perspective): promotes self-reflection of Stakeholders and considers that there are multiple realities since all knowledge is relative to the knower. Interpretivist aims to work alongside others as they make sense of, draw meaning from and create their realities to understand their viewpoint. While Positivist is aligned to a quantitative perspective. Considering stakeholders, the positivist position presumes the social world exists objectively and externally, and that knowledge is valid only if it is based on observations and consideration of this external reality.

However, the philosophical paradigm that guided the research was interpretivism, which subsequently recommends a qualitative method. The problem under study required the participants’ experiences and self-reflections by SME business owners towards SSR and sustainable growth. Qualitative research is any research that produces findings not arrived at by employing statistical procedures or other means of quantification (Creswell, 2012).

As mentioned above, the research reinforced the selection of a Case Study research design as a framework for collecting data to answer the research questions. As well, since SMEs are made up of different Stakeholders which is in line with the Stakeholder theory, a case study allowed the researcher to use interviews to collect data.

The researcher applied the case study approach as the primary technique for this research to answer questions such as: what the perception of SMEs business towards SSR is; to what extent do SME businesses practice of SSR; what the owner’s values could be driving sustainable growth of the business.

IV. Results and Discussion

The results from this study were addressed under four critical themes: Perception of SMEs towards SSR; Adoption and implementation of SSR by SMEs; Barriers against the practice of SSR by SMEs and Owners’ values key to the success of SME business. The themes were extracted from respondents’ feedback to the research questions raised interviews and data collection tools.

- Perception of SMEs towards SSR

SMEs are not supportive of the Stakeholder Theory, which states that all Stakeholders must be treated equally. SME owners hold the idea that they pay salaries; therefore, taking care of community welfare is never part of their SSR. SMEs in South Africa understand what SSR entails and more so seem to support the idea of practising responsible business literally. However, SMEs in South Africa regrettably distanced themselves from extra-curricular responsibilities, apart from their core business. Concerning society, SMEs are aware of the need to take part in community activities as part of their SSR. However, most of their views point to large corporates as the primary culprits who exploit communities through their businesses making billions in profits.

Once they pay tax, SMEs expect the government to take care of the community. SMEs presume that government, local authorities and large
corporations are solely responsible for caring and funding society beneficial projects or initiatives. SMEs have a strong belief that since they obey all government laws by paying tax, annual licencing fees, healthy certification and rates to the municipal, they expect those funds to be used to maintain the community’s living standards. A substantial societal burden is set on the shoulders of large corporations whom SMEs believe benefits through huge customer numbers they serve in the community and their operations harm, exploit and weigh heavily on the income of the society. Hence, should give back financial and payback by participating in humanitarian, infrastructural and civil initiatives that benefit the society. Also, society has little or no expectation of SMEs taking care or participating in the community; therefore, there is no pressure to practise society-oriented SSR.

Furthermore, concerning society-oriented SSR, the SME owners indicated that they had nothing to do with the community, or rather, they were not prepared to participate in any form in the community as they obey all the relevant laws and pay taxes, which can, in turn, be used to support the needs of communities. Nonetheless, this is against the philosophical approach of the Stakeholder Theory, which promotes total consideration of all Stakeholders by the business.

- **Adoption and implementation of SSR by SMEs**
  
  SMEs are not behaving in a socially responsible manner towards society. Any other SSR activity that comes with a cost to their pockets is considered less relevant. The idea with SMEs is that since they operate in a cash business environment, the strategy is that the lower the use of money in non-revenue generation activities, the higher the revenue for transactions. Hence, 95 per cent of their activities is profit-driven. If every SME considered society as number one Stakeholders, then the country will experience consistently improving human living standards with improved health care, entertainment facilities, improved infrastructure, education and productive society.

  Though it is a common belief that community loyalty to a business plays a significant role in the sustainable growth of the SME business and that in most cases it is community support that prop up the business, SME owners focus on profit-making activities, neglecting non-revenue generating social responsibility like Stakeholder-related activities. The results showed that most of the owners indicated that SSR responsibilities did not apply to their respective organisations, given that their business relies not only on the community they operate in but collectively on the public. Majority of wholesale SME business owners believe that 90 per cent of their business transactions are with fellow businesses, and 10 per cent is towards the public. The results also (surprisingly) reveal that there are SMEs who do not believe that there is an excellent reason to join hands in fighting crime. The main reason could be that they have never experienced any crime-related cost or drawback. Therefore, it makes no meaning to support society on a cause that seems not to affect them.

  SME owners that held higher qualifications knew about what is ethically expected in the operations of their businesses, and they were aware that business operates in a community and that the community if not supported, will affect sustainable growth of the business. However, there is a concern based on SMEs viewing themselves as relatively too small to positively impact the community hence no need to invest in SSR. There is a considerable challenge in the SME business sector that stretches to lack of education in the country where majority of SME business owners in South Africa possess matric level certificates, professional certificates in some field which may not be even close to running a business, diplomas and a few possess degrees. This condition consistently brings a different level of perception towards such business strategies as SSR.

  An encouraging development was noted on SMEs’ commitment to upholding Black Economic Empowerment (BEE), Affirmative Action (AA), and Employment Equity (EE). Majority of SME owners confirmed their commitment. However, according to the revised BEE codes which became law in 2007, businesses with a turnover of less than R5 million a year are exempted from having to draw up a BEE scorecard. Given the above, there was a negative difference between SME owners on the willingness to implement changes in line with BEE, AA and EE. Subsequently, about that sudden development, one would find out that most SMEs undoubtedly decreased since the turnover is now pegged at R5 million per year and most SMEs are way less than that value. Given that majority of these SMEs fell away from the BEE criteria, their prospects of engaging in SSR naturally diminished because of them failing to get BEE certified status which comes with some business leverages in South Africa.

- **Barriers against the practice of SSR by SMEs**

  In order of importance, the most common and frequent barriers hindering SMEs from further and consistently engaging in SSR are huge costs incurred by the company; lack of time, lack of human resources; and a lack of interest. SMEs, besides the barriers they come across in practising SSR, see no benefits in engaging in SSR activities. Due to barriers, these SME businesses choose not to consider any of the Stakeholders as spelt out by the Stakeholder theory and stick to the core business.

  SMEs in South Africa are deterred from practising SSR due to the costs incurred in meeting the requirements and expenses of SSR. Therefore, most of these SMEs businesses expect finance-based
assistance to further engage in SSR. Some of the SMEs are not interested in assistance in the form of advice or guidance on SSR as they always perceive a costly outcome. That is the reason why most SMEs generally fail in effectively practising and implementing SSR as a sustainable growth strategy since the ‘know-how’ is non-critical to them.

- Owners’ values key to the success of SME business

Considering Stakeholder Theory, morals play an essential role in the applicability of the philosophical principles. Most SME managers see their businesses driven by morals. However, the SME managers indicate that laws that set right or wrong had a strong influence on how they manage their empires. In this regard, most SME owners were not clear whether their values influenced the way they run their companies. By not considering morals as a significant driving force behind their businesses, SMEs showed that they did not equally consider all Stakeholders in SSR.

SME owners believe that there is slim or no chance of investment opportunities coming their way even if their values as owners are highly maintained. The concern was based on the reason that, because of the nature of their business which are naturally operating in a volatile market with unpredictable clientele tastes, profit margins and competition levels, investors fear that their efforts may go down the drain. Therefore, it never mattered whether to uphold personal values or not because it brought no revenue other than just principled staff. In simpler terms, Stakeholder Theory does not apply to their businesses since the values enshrined in responsible business do not bring any investment to their businesses.

V. Conclusion and Recommendations

- Perception of SMEs towards CSR

The findings of the research showed that SMEs in South Africa have a positive attitude and are sensitive to SSR. However, a positive attitude without practical results in this research will not hold water, given the fact that there is severe unemployment in the economy. SMEs are sensitive to and have a positive attitude towards the concept but fail to implement it fully in their organisations.

SMEs professed negativity towards SSR activities such as investing and operating in less deprived areas of the community or getting involved with traditionally marginalised groups (i.e. handicapped, unemployed, homeless). Regrettably, SMEs distanced themselves from extra-curricular responsibilities apart from their core business which goes against the Stakeholder Theory. It is likely that such an attitude is because most SMEs’ perception has been built on the belief that they were too small to engage themselves in such responsibilities and point out the fact that SSR activities are predominantly for Multinational companies (MNCs). Hence authorities such as the Ministry of Small businesses and Chambers of Commerce should carry out an awareness campaign on the benefits driven from a socially responsible business.

- Adoption and implementation of CSR by SMEs

Despite their significance and contribution to economic growth, SMEs in South Africa face numerous challenges that inhibit entrepreneurial growth. Apart from SME funding and access to finance (which is a significant reason for the high growth failure rate), SMEs fail to adopt, implement and practice sustainable growth strategies like SSR. The failure is a result of lack of adequate training and education in business. Consequently, the high rate of SME business failures results in business closures and generally high unemployment rates in the economy. Therefore, government should initiate training workshops for SME business on SSR to bridge the gap between the business owner’s formal education and expectations in business.

- The importance of values in practising SSR

Regrettably, the South African government considers the sustainable growth of SMEs as a critically vital strategy to alleviate and fight the soaring levels of unemployment by progressively empowering previously disadvantaged citizens of the country simultaneously forgetting to enforce mandatory policies for SMEs to commit and engage in SSR fully. Likewise, since the governing authorities in South Africa at all levels are generally shallow-resourced, incapable and inept when it comes to policy enforcement, SMEs are not a priority even if the impact of their operations is more significant. The proof is, in developed countries such as Australia, Japan, Germany, their cultures taught them to be responsible organisations no matter the size, the industry is highly socially responsible, and evidently, unemployment rates are relatively low with crime levels at insignificant levels. Morals and cultural beliefs in any country are easily nurtured from childhood hence the need for the South African government to consider SSR to be incorporated in the education system uniquely aligned to business subjects to make SSR part of SME businesses owners’ values.

Owners’ values key to the success of SME business

Researchers fail to establish whether there is a significant link between values and SSR. Literature has reflected different standpoints on the same topic; however for this study, the researcher concludes as:

- The balance between entrepreneurship and ethical practice

There is need for the education system to incorporate SSR as part of the subjects in the business courses. It is also crucial for the system to align SSR with personal values that lead to a successful business. Research also found that SME business owners were
not aware of which personal value among all other values that can be sustained and drive their business strategies such as brand loyalty through practising SSR.

- Entrepreneurs placing a high value on desire and accomplishment rather than on business-driven principles.

South Africa has gone through some socio-economic challenges in the past years and has seen the majority of SME businesses folding up because of related financial problems. The economy led to SME businesses failing to exercise their social obligations especially SSR initiatives which generally has been regarded as a cost. SME business owners are aware of the need to promote their values through practising SSR; however the economy is not supportive enough for the business to branch from their core business to promote SSR activities. There is need for business and local authorities to come together and compliments each other synergies so that business can have the room to practise SSR without much cost.

- Investors are attracted not only by the financial performance of the business but also the values which the owner-manager exhibits for them to invest in the business’ SSR initiatives.

As local authorities like Chamber of Commerce should run business workshops that are targeted on SME business owners to appreciate critical areas that investors consider when they looking for business to invest in. It is of paramount importance for the workshop content to highlight to SME business owners that investors consider other non-business factors that build up to a successful business such as a history of achieved SSR initiatives which reflects high on sustainable growth of the business.

Results showed that majority of the respondents had an adverse view of SSR towards sustainable growth of SME business. SME business do not acknowledge the impact of SSR on SME business. SMEs undermine the practise of SSR as a compass strategy to sustainable growth of SME businesses. The study contributed to new knowledge through a model framework driven by the Stakeholder Theory entitled, “SSR, compass to SME business sustainable growth”. The model was proposed to motivate SME businesses to positively embrace SSR. Furthermore, the study recommended chamber of commerce, local municipalities and business leaders to proactively support SMEs to adopt SSR as a sustainable growth strategy through training leading to SME business alignment with SSR strategy.

References Références Referencias


